MEGOLA INC

FORM 10-Q
(Quarterly Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: January 31, 2011

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ___________ to ____________

MEGOLA, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Nevada	88-0492605
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(IRS EMPLOYER INDENTIFICATION NO.)

SEC File Number: 000-49815

704 Mara Street, Suite 111 Point Edward, ON	N7V 1X4
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: Tel: (519) 336-0628

(Former Name or Former Address, if Changed Since Last Report)

(Address of Principal Executive Offices) (Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is a shell Company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS: Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 28,255,155 at January 31, 2011.

Megola, Inc.

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Six Months Ended January 31, 2011 (Amounts expressed in US dollars)

MEGOLA, INC.
CONSOLIDATED BALANCE SHEETS
(Amounts expressed in US dollars)

	January 31, 2011 (unaudited)	July 31, 2010 (Audited)
ASSETS		
Cash	$ 682	$ -
Inventory	139,988	209,334
Prepaid expenses	5,352	13,595
Accounts receivable, net	-	7,855
Total Current Assets	146,022	230,784
Property and equipment, net	5,705	7,389
TOTAL ASSETS	**$ 151,727**	**$ 238,173**
LIABILITIES		
Bank overdraft	$ -	$ 20,729
Accrued expenses	139,063	168,992
Accounts payable	55,641	64,231
Accrued interest	322	-
Loans payable	3,676	1,134
Advances from stockholders	86,432	115,437
Convertible Debenture	77,500	20,000
Total Current Liabilities	362,634	390,523
Commitments and Contingencies	-	-
STOCKHOLDERS' EQUITY		
Capital stock: (note 8)		
Common, $0.001 par value; 200,000,000 shares authorized, 28,255,155 and 33,570,455 issued and outstanding as of January 31, 2011 and July 31, 2010 respectively	28,255	33,570
Preferred "A", $0.001 par value; 3,500,000 shares authorized, 1,061,065 and $1,092,225 issued and outstanding as of January 31, 2011 and July 31, 2010 respectively	1,061	1,092
Preferred "B", $0.001 par value; 1,500,000 shares authorized, 117,879 and 47,561 issued and outstanding as of January 31, 2011 and July 31, 2010 respectively	118	47
Treasury stock	(1,080)	-
Additional paid in capital (note 8)	7,842,528	7,761,917
Deficit	(7,950,159)	(7,830,207)
Accumulated other comprehensive loss:		
Foreign currency translation adjustment	(131,628)	(118,769)
Total Stockholders' Equity	(210,905)	(152,350)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**151,727**	**238,173**

MEGOLA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Amounts expressed in US dollars)

	FOR THE 3 MONTHS ENDED		FOR THE 6 MONTHS ENDED	
	January 31, 2011	January 31, 2010	January 31, 2011	January 31, 2010
Income - sales	$ 356,719	$ 176,784	$ 358,498	$ 315,271
Cost of sales	151,208	59,312	151,388	92,461
GROSS PROFIT (LOSS)	205,511	117,472	207,110	222,810
General and administrative	179,723	189,169	245,785	356,539
Depreciation	634	1,031	1,845	2,256
Interest	1,863	715	4,433	1,418
Consulting fees	75,000	-	75,000	64,000
TOTAL EXPENSES	257,220	190,915	327,063	424,213
NET LOSS	(51,709)	(73,443)	(119,953)	(201,403)
Foreign currency translation adjustment	(8,523)	(5,115)	(12,859)	(17,382)
COMPREHENSIVE LOSS	$ (60,232)	$ (78,558)	$ (132,812)	$ (218,785)
Weighted average common shares outstanding	**645,455**	**680,595**	**645,455**	**680,595**
Loss per share - basic and diluted	**(0.080)**	**(0.108)**	**(0.186)**	**(0.296)**

See accompanying notes to audited consolidated financial statements

MEGOLA, INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts expressed in US dollars)

	6 Months Ended	
	January 31, 2011	**January 31, 2010**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(119,953)	(201,403)
Adjustments to reconcile net loss to net cash used in operating activities:	115,947	110,728
	(4,006)	(90,675)
Non-cash operationg transactions		
Depreciation	1,845	2,256
Shares issued for rent	-	-
Shares issued for services	75,000	64,000
Allowance for doubtful accounts	5,212	-
Cash used by operating activities		
Long term receivable	-	(61,352)
Inventory	55,731	45,304
Prepaid expenses	(22,186)	13,944
Accounts payable	(21,979)	31,729
Accrued Interest	(25,499)	-
Accrued expenses	47,823	14,847
Cash flows used in operating activites	115,947	110,728
CASH FLOWS FROM FINANCING ACTIVITES		
Increase (decreased) in bank indebtedness	-	-
Advances from stockholders	86,432	185,204
Convertible deventure borrowing	77,500	-
Cash flows used in financing activities	163,932	185,204
CASH FLOWS FROM INVESTING ACTIVITES		
Buyback of common stock	-	-
Cash flows from investing activities	-	-
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(12,859)	(17,383)
NET INCREASE (DECREASE) IN CASH FOR THE YEAR	21,411	77,146
NET CASH, beginning of period	(20,729)	(74,736)
NET CASH, end of period	682	2,410
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	-	-
Income taxes paid	-	-
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of stock for services rendered	937,500	-
Conversion of debt into preferred stock	-	165,617

See accompanying notes to audited interim consolidated financial statements

Megola, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIENCY)
(Amounts expressed in US dollars)

	Common Stock		Preferred Stock Series "A"		Preferred Stock Series "B"	
	Shares	Amount	Shares	Amount	Shares	Amount
Balances, July 31, 2009	663,749	$ 664	1,911,940	$ 1,912	137,885	$ 138
Stock for services	64,000	64	-	-	5,000	5
Common converted to Preferred "A"	(23,668)	(24)	47,400	48	-	-
Debt converted to Preferred "B"	-	-	-	-	16,561	16
Preferred "A" converted to common	21,677,874	21,678	(867,115)	(867)		
Preferred "B" converted to common	11,188,500	11,188	-	-	(111,885)	(112)
Net Loss	-	-	-	-	-	-
Foreign Currency Translation Adjustment	-	-	-	-	-	-
Balances, July 31, 2010	33,570,455	$ 33,570	1,092,225	$ 1,092	47,561	$ 47
Stock for services	937,500	938				
Common converted to Preferred A	(1,000,000)	(1,000)	40,000	40	-	-
Common converted to Preferred B	(7,031,800)	(7,032)	-	-	70,318	70
Preferred "A" converted to Common	1,779,000	1,779	(71,160)	(71)	-	-
Common stock buyback	-	-	-	-	-	-
Net Loss	-	-	-	-	-	-
Foreign Currency Translation Adjustment	-	-	-	-	-	-
Balances, January 31, 2011	28,255,155	28,255	1,061,065	1,061	117,879	118

	Treasury Stock		Comprehensive Income (Loss)	Paid In Capital	Accumulated Deficit	Totals
	Shares	Amount				
Balances, July 31, 2009			(92,327)	$ 7,514,297	$ (5,873,774)	$ 1,550,910
Stock for services	-	-	-	113,931	-	114,000
Common converted to Preferred "A"	-	-	-	(24)	-	-
Debt converted to Preferred "B"	-	-	-	165,600	-	165,616
Preferred "A" converted to common	-	-	-	(20,811)	-	-
Preferred "B" converted to common	-	-	-	(11,076)	-	-
Net Loss	-	-	-	-	(1,956,432)	(1,956,432)
Foreign Currency Translation Adjustment	-	-	(26,442)	-	-	(26,442)
Balances, July 31, 2010	-	-	(118,769)	$ 7,761,917	$ (7,830,206)	$ (152,348)
Stock for services				74,062		75,000
Common converted to Preferred "A"	-	-	-	960	-	-
Common converted to Preferred "B"	-	-	-	6,962	-	-
Preferred "A" converted to Common	-	-	-	(1,708)	-	-
Common stock buyback	18,000	(1,080)	-	335	-	(745)
Net Loss	-	-	-	-	(119,953)	(119,953)
Foreign Currency Translation Adjustment	-	-	(12,859)	-	-	(12,859)
Balances, January 31, 2011	18,000	(1,080)	(131,628)	7,842,528	(7,950,159)	(210,905)

See accompanying notes to audited interim consolidated financial statements

MEGOLA, INC.
Notes to Unaudited Interim Consolidated Financial Statements for the Six Months ended January 31, 2011
(Amounts expressed in US dollars)

1. NATURE OF BUSINESS

Megola, Inc. ("Megola" or "the Company") was incorporated in Ontario, Canada on August 28, 2000. Megola was formed to sell physical water treatment devices to a wide range of end-users in the United States, Canada and internationally under a license granted by Megola GmbH in Germany.

The Company presently distributes the following product lines: physical water treatment; water filtration; air purification; microbiological control; waste water treatment and fire safety.

The accompanying unaudited interim consolidated financial statements of Megola, Inc. (the "Company" or "Megola") have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission ("SEC"), and should be read in conjunction with the audited consolidated financial statements and notes thereto contained in Megola's Annual Report filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the unaudited interim consolidated financial statements which would substantially duplicate the disclosure contained in the audited consolidated financial statements for fiscal 2010 as reported in the 10-K have been omitted.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. As shown in the accompanying consolidated financial statements, Megola incurred recurring net losses of $119,953 and $201,403 in the 2011 and 2010 quarter ended respectively, and a deficit of $7,950,159 as at January 31, 2011. These conditions create an uncertainty as to Megola's ability to continue as a going concern. At present, the Company does not have sufficient resources to fund its current working capital requirements. The Company's financing plans include obtaining additional capital through various debt and/or equity financing arrangements to service its current working capital requirements; any additional or unforeseen obligations and to fund the implementation of future opportunities. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. These consolidated financial statements do not include any adjustments for this uncertainty.

Management has undertaken the following initiatives that it believes will be instrumental in leading to better management of cash flows and more profitable operations:

- Outsourcing of much of the manufacturing activities has been established along with appropriate analysis ensuring cost competitiveness to minimize capital outlay and provide for rapid potential growth in production levels
- Establishment of policies and procedures for production processes to ensure timely delivery of product to distribution groups and customers
- Established relationships with Distribution groups that can provide the necessary expertise in commercialization of the Company's entire product line to ensure maximum market penetration
- Signing of Definitive Sales and Agency Agreements, pertaining to the distribution rights, that have purchase/sale order requirements expected to generate substantial sales in the next five years
- Requirement for cash deposit with sales orders to minimize drain on working capital

3. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB has published ASU 2010-01 *"Equity (Topic 505) - Accounting for Distributions to Shareholders with Components of Stock and Cash—a consensus of the FASB Emerging Issues Task Force,"* as codified in ASC 505. ASU No. 2010-01 clarifies the treatment of certain distributions to shareholders that have both stock and cash components. The stock portion of such distributions is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend. The amendments in this Update are effective for interim and annual periods ending on or after December 15, 2009 and should be applied on a retrospective basis. Early adoption is permitted. The adoption of this standard did not have an impact on the Company's consolidated financial position and results of operations.

In January 2010, the FASB has published ASU 2010-06 *"Fair Value Measurements and Disclosures (Topic 820): - Improving Disclosures about Fair Value Measurements"* . ASU No. 2010-06 clarifies improve disclosure requirement related to fair value measurements and disclosures – Overall Subtopic (Subtopic 820-10) of the FASB Accounting Standards Codification. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure about purchase, sales, issuances, and settlement in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The amendments in this Update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.

MEGOLA, INC.
Notes to Unaudited Interim Consolidated Financial Statements for the Six Months ended January 31, 2011
(Amounts expressed in US dollars)

3. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

In February 2010, the FASB issued ASU 2010-09 which requires that an SEC filer, as defined, evaluate subsequent events through the date that the financial statements are issued. The update also removed the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. The adoption of this guidance on January 1, 2010 did not have a material effect on the Company's consolidated financial statements.

In April 2010, the FASB issued Accounting Standard Update No. 2010-13 "Stock Compensation" (Topic 718). ASU No.2010-13 provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments in this Update should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the fiscal year in which the amendments are initially applied, as if the amendments had been applied consistently since the inception of the award. The cumulative-effect adjustment should be presented separately. Earlier application is permitted. The adoption of this guidance has not had and is not expected to have a material impact on the Company's consolidated financial statements.

In August 2010, the FASB issued Accounting Standard Updates No. 2010-21 (ASU No. 2010-21) "Accounting for Technical Amendments to Various SEC Rules and Schedules" and No. 2010-22 (ASU No. 2010-22) "Accounting for Various Topics – Technical Corrections to SEC Paragraphs". ASU No 2010-21 amends various SEC paragraphs pursuant to the issuance of Release no. 33-9026: Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies. ASU No. 2010-22 amends various SEC paragraphs based on external comments received and the issuance of SAB 112, which amends or rescinds portions of certain SAB topics. Both ASU No. 2010-21 and ASU No. 2010-22 are effective upon issuance. The amendments in ASU No. 2010-21 and No. 2010-22 will not have a material impact on the Company's financial statements. Other ASUs not effective until after September 30, 2010, are not expected to have a significant effect on the Company's consolidated financial position or results of operations.

4. INVENTORY

Inventory is valued at the lower of cost (determined on a first -in, first-out method) and net realizable value. Megola records provisions to write down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between cost of the inventory and its estimated net realizable value based on assumptions about future market demand and market conditions. If future demand or market conditions are less favorable than currently expected, additional inventory provisions may be required. During the quarters ended January 31, 2011 and 2010 impairment expense was $nil and $nil, respectively related to inventory impairments. In the year ending July 31, 2007, included in the impairment reserve is $245,032 for slow moving products. These products are in good condition and are still expected to be sold.

5. CONVERTIBLE NOTES PAYABLE

On July 16, 2010, a third party loaned the Company $20,000. The loan bears a rate of interest of 9% per annum and is payable on April 6, 2011 or such earlier date as this Debenture is required or permitted to be repaid as provided hereunder (the "Maturity Date"), and to pay interest to the Holder on the aggregate unconverted and then outstanding principal amount of this Debenture at the rate of 9% per annum, payable on the Maturity Date, unless the Debenture is converted to shares of common stock in accordance with the terms and conditions herein.. The holder of the note has the right to convert the note into common stock of the Company at a price of $0.01 per share of common stock or a price of seventy percent (70%) of the average of the two lowest volume weighted average prices ("VWAPs"), determined on the then current trading market for the Company's common stock, for ten (10) trading days prior to conversion (the "Set Price"), at the option of the Holder, in whole at any time and from time to time.

MEGOLA, INC.
Notes to Unaudited Interim Consolidated Financial Statements for the Six Months ended January 31, 2011
(Amounts expressed in US dollars)

5. CONVERTIBLE NOTES PAYABLE (continued)

On October 19, 2010, Megola was issued $25,000 as proceeds from a 9% Convertible Debenture issued to Tangiers Investors, LP (the "Holder) and designated as its 9% Convertible Debenture due July 19, 2011.

Megola promises to pay to the Holder the principal sum of $25,000 on July 19, 2011 or such earlier date as this Debenture is required or permitted to be repaid as provided hereunder, and to pay interest to the Holder on the aggregate unconverted and then outstanding principal amount of this Debenture at the rate of 9% per annum, payable on the Maturity Date, unless the Debenture is converted to shares of common stock in accordance with the terms and conditions herein.

This Debenture is exchangeable for an equal aggregate principal amount of Debentures of different authorized denominations, as requested by the Holder surrendering the same. No service charge will be made for such registration of transfer or exchange. This Debenture may be transferred or exchanged only in compliance with applicable federal and state securities laws and regulations. Prior to due presentment to the Company for transfer of this Debenture, the Company and any agent of the Company may treat the Person in whose name this Debenture is duly registered on the Debenture Register as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Debenture is overdue, and neither the Company nor any such agent shall be affected by notice to the contrary.

On August 31, 2010, Megola ("Company") entered into a Securities Purchase Agreement with Asher Enterprises, Inc. ("Buyer"). The basic parameters of the Agreement with Asher Enterprises, Inc. will include, but not be limited to, the following:

(a) The Company and the Buyer is executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the rules and regulations as promulgated by the United States Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "1933 Act");

(b) Buyer desires to purchase and the Company desires to issue and sell, upon the terms and conditions set forth in this Agreement an 8% convertible note of the Company, in the form attached hereto as Exhibit A, in the aggregate principal amount of $45,000.00 (together with any note(s) issued in replacement thereof or as a dividend thereon or otherwise with respect thereto in accordance with the terms thereof, the "Note"), convertible into shares of common stock of the Company (the "Common Stock"), upon the terms and subject to the limitations and conditions set forth in such Note.

(c) The Buyer wishes to purchase, upon the terms and conditions stated in this Agreement, such principal amount of Note as is set forth immediately below its name on the signature pages hereto

On December 28, 2010, Megola ("Company") paid the principal amount of $45,000 to Asher Enterprises, Inc, and issued 937,500 of the company's restricted common stock at 0.08 per share, for a value of $75,000, for commitment fees that were set forth in the Note.

On December 8, 2010, Megola ("Company") confirmed proceeds from a Securities Purchase Agreement entered into on November 29, 2010 with Asher Enterprises, Inc. ("Buyer").

The basic parameters of the Agreement with Asher Enterprises, Inc. will include, but not be limited to, the following:

(a) The Company and the Buyer is executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the rules and regulations as promulgated by the United States Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "1933 Act");

(b) Buyer desires to purchase and the Company desires to issue and sell, upon the terms and conditions set forth in this Agreement an 8% convertible note of the Company, in the form attached hereto as Exhibit A, in the aggregate principal amount of $32,500.00 (together with any note(s) issued in replacement thereof or as a dividend thereon or otherwise with respect thereto in accordance with the terms thereof, the "Note"), convertible into shares of common stock of the Company (the "Common Stock"), upon the terms and subject to the limitations and conditions set forth in such Note.

(c) The Buyer wishes to purchase, upon the terms and conditions stated in this Agreement, such principal amount of Note as is set forth immediately below its name on the signature pages hereto

MEGOLA, INC.
Notes to Unaudited Interim Consolidated Financial Statements for the Six Months ended January 31, 2011
(Amounts expressed in US dollars)

6. SEGMENT REPORTING

Megola sells in the U.S. and Asia as well as in Canada and has two reportable geographic segments, with summary information as follows:

	North America	Asia	Total
Six months ended January 31, 2011			
Revenues	$ 358,498	$ -	$ 358,498
Net Loss	$ 119,953	$ -	$ 119,953
Interest Expense	$ 4,433	$ -	$ 4,433
Total Assets	$ 151,717	$ -	$ 151,717

	North America	Asia	Total
Six months ended January 31, 2010			
Revenues	$ 315,271	$ -	$ 315,271
Net Loss	$ 201,403	$ -	$ 201,403
Interest Expense	$ 1,418	$ -	$ 1,418
Total Assets	$ 1,776,018	$ -	$ 1,776,018

7. ADVANCES FROM STOCKHOLDERS

Included in the balance are advances in the amount of $86,432 unsecured, bearing interest at 6% and are due on demand.

8. CAPITAL STOCK AND ADDITIONAL PAID IN CAPITAL

(a) Common stock

Common stock ($.001 par value per share): 200,000,000 shares are authorized, with 28,255,155 shares issued and outstanding at January 31, 2011 and 33,570,455 at July 31, 2010.

On September 3, 2010, the corporation approved the conversion, thru RBC Dominion Securities, of 7,031,800 restricted common shares of Megola Inc. (MGON) to 70,318 shares of Megola Inc Series B Preferred Stock.

On September 8, 2010, Megola announced that the company had opened a brokerage account with Glendale Securities for the purpose of initiating a stock buyback plan.

On September 9, 2010, Megola received a request from TD AMERITRADE Clearing Inc. to reverse a conversion and transfer that was done per their request by the transfer agent. As the conversion and transfer from Megola Series 'A' Preferred stock to Megola Common stock was done without the authorization of their client TD AMERITRADE Clearing Inc. asked for consent to reverse the transaction and revert the Common Shares back to Preferred Series A Shares. Megola has given consent for 1,000,000 Common Shares to be reverted back to the original 40,000 shares of Series 'A' Preferred stock into the name of their client.

On September 17, 2010, the Company purchased 18,000 shares at 0.04 per share of its common stock valued at $745 and will return to treasury. The stock on that day was trading at 0.06 per share.

On December 28, 2010, the Company issued 937,500 restricted common stock valued at $75,000 (0.08 per share) for a commitment fee based on conditions set forth on a Convertible Debenture. (see Note 5)

During the period of November 1, 2010 to January 31, 2011, 241,900 common shares of Megola Inc. (MGON) were converted into 9,676 shares of Megola Inc Series A Preferred Stock. One share of Series A Convertible Preferred Stock was received for each 25 shares of common tendered.

MEGOLA, INC.
Notes to Unaudited Interim Consolidated Financial Statements for the Six Months ended January 31, 2011
(Amounts expressed in US dollars)

8. CAPITAL STOCK AND ADDITIONAL PAID IN CAPITAL (continued)

(b) Preferred "A"

Preferred A stock ($.001 par value per share): 3,500,000 shares are authorized, with 1,061,065 shares issued and outstanding at January 31, 2011 and 1,092,225 at July 31, 2010.

On April 24, 2009, the company offered all common shareholders of record the opportunity to tender their shares in exchange for the company's Series A Convertible Preferred stock. As of the offer expiration date, June 15, 2009, 47,798,610 common shares had been tendered. One share of Series A Convertible Preferred Stock was received for each 25 shares of common tendered. There is a mandatory holding period for the Series A Convertible that expires May 29, 2010, before shareholders can then convert back to common shares. The stated value of the Series A Convertible is $5. per share or $.20 per common share.

On May 29, 2010 Preferred A shareholders may convert their shares back to common at $.20 per common share or market, whichever is less. Each Preferred Series A still represents 25 shares of common. The holders of Series A Convertible Preferred Stock have 100 votes for each full share Series A Convertible Preferred Stock.
Each Series A Preferred also has a warrant attached which allows the owner to purchase 10 common shares at $.45 per share. The warrant applies only to shareholders that have not yet converted their Preferred A shares back to common on the date they exercise their warrants. These warrants expire on May 29, 2011.

On September 9, 2010, Megola received a request from TD AMERITRADE Clearing Inc. to reverse a conversion and transfer that was done per their request by the transfer agent. As the conversion and transfer from Megola Series 'A' Preferred stock to Megola Common stock was done without the authorization of their client TD AMERITRADE Clearing Inc. asked for consent to reverse the transaction and revert the Common Shares back to Preferred Series A Shares. Megola has given consent for 1,000,000 Common Shares to be reverted back to the original 40,000 shares of Series 'A' Preferred stock into the name of their client.

On May 29, 2010, all Preferred series A stock were eligible for conversion back to common stock. During the period Of August 1, 2010 to October 31, 2010, 61,484 shares of Preferred series A stock were converted into 1,537,100 shares of common stock. One share of Series A Convertible Preferred Stock was received for each 25 shares of common tendered.

During the quarter ending January 31, 2010, an entry to Megola Inc. Series A Preferred Stock had occurred that was reflected in the prior quarter ended October 31, 2010, with 1,000 shares of Megola Inc. Series A Preferred Stock were converted into 25,000 common shares of Megola Inc. (MGON). One share of Series A Convertible Preferred Stock was received for each 25 shares of common tendered.

During the period of November 1, 2010 to January 31, 2011, 9,676 shares of Megola Inc. Series A Preferred Stock were converted into 241,900 common shares of Megola Inc. (MGON). One share of Series A Convertible Preferred Stock was received for each 25 shares of common tendered.

(c) Preferred "B"

Preferred B stock ($.001 par value per share): 1,500,000 shares are authorized, with 117,879 shares issued and outstanding at January 31, 2011 and 47,561 at July 31, 2010.

On April 24 2009, Megola offered to exchange selected Debt for shares of a newly created Series B Convertible Preferred Stock, priced at $10.00 per share. The holders of Series B Convertible Preferred Stock shall have the right to convert the Series B Convertible Preferred Stock into Debt at a later time subject to certain conditions. No conversion of Series B Convertible Preferred Stock to Debt can occur until after a holding period of twelve (12) months from date of conversion. Thereafter, at your option, you may convert the Series B Convertible Preferred Stock into common stock. For purposes of conversion, the value of each share of Series B Convertible Preferred Stock will be deemed to be $10.00. The number of shares of common shares to be received upon a conversion will be based on a value of $0.10 per share or the value of the market bid price at the time of conversion, whichever is less. That value will be based on the average closing bid price of the common stock for each of the ten (10) consecutive trading days immediately prior to the date of conversion.

MEGOLA, INC.
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(Amounts expressed in US dollars)

8. CAPITAL STOCK AND ADDITIONAL PAID IN CAPITAL (continued)

On September 3, 2010, the corporation approved the conversion, thru RBC Dominion Securities, of 7,031,800 restricted common shares of Megola Inc. (MGON) to 70,318 shares of Megola Inc Series B Preferred Stock.

(d) Additional paid in capital

From the quarter ended January 31, 2011 additional paid in capital increased by $80,611 due to common stock being converted to Preferred "A", common stock being converted to Preferred "B", Preferred "A" being converted to common stock, common stock buy back and common stock being issued for services.

(e) The Company has a Stock Incentive Plan for employees and consultants. There were no shares issued under the plan during the quarter ended January 31, 2011.

9. LEASE COMMITMENTS

(i) The Company leased warehouse space and additional office space in Point Edward, Ontario, and Canada that commenced September of 2008. Required minimum lease payments are as follows:

Office			
Year Ended	July 31, 2011	$	43,409
Year Ended	July 31, 2012	$	43,409
Year Ended	July 31, 2013	$	43,409
Year Ended	July 31, 2014	$	3,617
Total		$	**133,844**
Warehouse			
Year Ended	July 31, 2011	$	17,680
Year Ended	July 31, 2012	$	17,680
Year Ended	July 31, 2013	$	17,680
Year Ended	July 31, 2014	$	1,473
Total		$	**54,513**

(ii) The Company has also leased 4 vehicles that commenced in August of 2008. Required minimum lease payments are as follows:

Year Ended	July 31, 2011	$	40,474
Year Ended	July 31, 2012	$	6,746
Total		$	**47,220**

As of January 31, 2011, the company does not lease any vehicles, and is no longer in any lease commitment.

(iii)An additional vehicle was leased in April of 2009. Required minimum lease payments are as follows:

Year Ended	July 31, 2011	$	9,481
Year Ended	July 31, 2012	$	7,111
Total		$	**16,592**

As of January 31, 2011, the company does not lease any vehicles, and is no longer in any lease commitment.

MEGOLA, INC.
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(Amounts expressed in US dollars)

10. CONTINGENCIES

On March 30, 2010, the Company entered in a Master Distributor agreement with CY Holding Company. Through this agreement the Company acquired exclusive rights to sell the equipment of CY Holding Company in North America. This agreement is contingent on the minimum annual sales of 10,000 – 20,000 units during any calendar twelve month period. As of January 31, 2011, the Company had not sold any units related to CY Holding's equipment.
Megola is still in discussion with CY Holding Company and working on further details.

11. ALLOWANCE FOR DOUBTFUL ACCOUNTS

For the period ending January 31, 2011, the Company has recorded an allowance for doubtful account in the amount of $5,212.

12. SUBSEQUENT EVENT

Megola Inc is in the process of collecting the minimum quotas due from EcoBlu Products Inc.as per their 2010 sales agreement. Megola Inc believes it is entitled to $1,531,269.60 and will further deliver 348 totes of AF21. As of filing date, Megola hasn't had any correspondence from EcoBlu Products Inc as to payment for arrear quotas.

Item 2. Management's Discussion and Plan of Operation

Management's Discussion and Analysis of Financial Condition and Operating Results
For the Quarter Ended January 31, 2011

MANAGEMENT'S DISCUSSION AND PLAN OF OPERATION FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements about Megola, Inc.'s (the Company" or "Megola") business, financial condition and prospects that reflect management's assumptions and beliefs based on information currently available. We can give no assurance that the expectations indicated by such forward-looking statements will be realized. If any of our management's assumptions should prove incorrect, or if any of the risks and uncertainties underlying such expectations should materialize, Megola's actual results may differ materially from those indicated by the forward-looking statements.

The key factors that are not within our control and that may have a direct bearing on operating results include, but are not limited to, acceptance of our services, our ability to expand our customer base, management's ability to raise capital in the future, the retention of key employees and changes in the regulation of our industry.

There may be other risks and circumstances that management may be unable to predict. When used in this Quarterly Report, words such as, "believes," "expects," "intends," "plans," "anticipates," "estimates" and similar expressions are intended to identify forward-looking statements, as defined in Section 21E of the Securities Exchange Act of 1934, although there may be certain forward-looking statements not accompanied by such expressions.

The safe harbors of forward-looking statements provided by Section 21E of the Exchange Act are unavailable to issuers of penny stock. As we issued securities at a price below $5.00 per share, our shares are considered penny stock and such safe harbors set forth under the Reform Act are unavailable to us.

GOING CONCERN

Megola's net loss for the six months ended January 31, 2011 vs. six months ended January 31, 2010 decreased 40.44% from $201,403 to $119,953. The Company has an accumulated deficit of $7,950,159 as of January 31, 2011. These conditions create an uncertainty as to Megola's ability to continue as a going concern. Management is trying to raise additional capital through various funding arrangements. It is not certain as to whether Megola will raise this additional capital. The financial statements did not include any adjustment that might be necessary if Megola is unable to continue as a going concern.

GENERAL

Megola, Inc. was incorporated in Ontario, Canada on August 28, 2000 as Corporation No. 1375595. It was renamed Megola, Inc. on December 21, 2001. Megola was formed to sell physical water treatment devices to commercial end-users in the United States, Canada and other international locations under a license granted by the German manufacturer, Megola GmbH. Initial operations and sales began in October 2000.

Megola Inc. provides environmentally conscious solutions in the areas of physical water treatment, air purification and fire protection.

Megola's ScaleGuard product units are a cost-effective and environmentally friendly alternative to salt softeners and chemical water treatments. ScaleGuard utilizes electromagnetic technology rather than chemicals or other methods to condition water, both preventing the ongoing build-up of scale and eliminating historical scale build-up in water delivery systems and machinery. ScaleGuard prolongs the life of equipment, appliances, hot water tanks, and distribution systems in residential, commercial, agricultural and industrial applications.

Megola's AirGuardian indoor air quality product units are uniquely engineered, integrated ultraviolet light systems designed to dramatically reduce and control airborne allergens and toxic compounds such as mold, fungus, formaldehyde, xylene gases and tobacco smoke along with infectious agents such as bacteria, influenza, hemolytic streptococci and many others in an indoor environment. The duct-mounted units are ideal for improving indoor air quality in homes, cottages and business areas while the portable units are effective in deodorizing automobiles, change rooms and sporting equipment.

Megola's Hartindo anti-fire product line represents a one of a kind environmentally friendly fire inhibitor and suppression technology. These water-based, non-toxic and non-corrosive products include AF21, an inhibitor that renders all water absorbent and many synthetic materials non-flammable; AF31, a suppression agent that stops fire and prevents fire spread and is able to extinguish A, B, C, D and F/K class fires; AF11E, the world's only proven 1:1 direct replacement for both Halon 1301 and 1211; and Dectan, a water-based rust inhibitor and converter that exhibits the heat refraction properties of AF21.

Megola was dependent on one customer, EcoBlu Products Inc. for a sale accounting for approximately 99% of our revenues in the first 6 months of fiscal year 2011. Holly Oak Chemicals accounted for 100% of cost of goods for the first 6 months of fiscal year 2011. Sales of Hartindo products accounted for 100% of our total gross revenues in the first 6 months of fiscal year 2011.

Commencing in our fiscal year 2006, we entered into an agreement with H2O3 Solutions, one of the Company's manufacturers, to allow them to sell a residential and small commercial ScaleGuard system directly throughout Asia. By agreement, Megola is entitled to a royalty payment from the sales of these two products. There was no royalty income received during the period due to the manufacturer moving its facilities to a new location in Southeast Asia, thereby not producing or selling any additional units.

RESULTS OF OPERATIONS

Three months ended January 31, 2011 vs. three months ended January 31, 2010.

Our revenues for the three months ended January 31, 2011 vs. three months ended January 31, 2010 increased 101.78% from $176,784 to $356,719 due to an increase in Hartindo Sales.

Our cost of sales for the three months ended January 31, 2011 vs. three months ended January 31, 2010 increased 154.94% from $59,312 to $151,208. The overall increase in the cost of sales during this period is directly attributable to the increase in revenues.

Our general and administrative expenses for the three months ended January 31, 2011 vs. three months ended January 31, 2010 decreased 4.99% from $189,169 to $179,723 due to a decrease in salaries, and vehicle lease commitments.

Our interest expense for the three months ended January 31, 2011 vs. three months ended January 31, 2010 increased 160.56% from $715 to $1,863 due to the Company's increased interest owing towards payroll liabilities and accrued interest on convertible debenture loans.

Accordingly, our net loss for the three months ended January 31, 2011 vs. three months ended January 31, 2010 decreased 29.59% from $73,443 to $51,709.

Six months ended January 31, 2011 vs. Six months ended January 31, 2010.

Our revenues for the six months ended January 31, 2011 vs. six months ended January 31, 2010 increased 13.71% from $315,271 to $358,498 due to an increase in Hartindo sales.

Our cost of sales for the six months ended January 31, 2011 vs. six months ended January 31, 2010 increased 63.73% from $92,461 to $151,388. The overall increase in the cost of sales during this period is directly attributable to the sales of Hartindo product.

Our general and administrative expenses for the six months ended January 31, 2011 vs. six months ended January 31, 2010 decreased 31.06% from $356,539 to $245,785 due to a decrease in purchases of Hartindo products, shipping and receiving costs and vehicle lease commitments.

Our interest expense for the six months ended January 31, 2011 vs. six months ended January 31, 2010 increased 212.62% from $1,418 to $4,433 due to the Company's increased interest owing towards accrued interest on convertible debenture loans and interest owing towards payroll liabilities.

Accordingly, our net loss for the six months ended January 31, 2011 vs. six months ended January 31, 2010 decreased 40.44% from $201,403 to $119,953.

LIQUIDITY AND CAPITAL RESOURCES

The financial statements as of and for the period ending January 31, 2011 have been prepared assuming we continue as a going concern.

At January 31, 2011, we had an accumulated deficit of $7,950,159.

In order to become profitable, we will still need to secure additional debt or equity funding. We hope to be able to raise additional funds from an offering of our stock in the future. However, this offering may not occur, or if it occurs, may not raise the required funding. There are no preliminary or definitive agreements or understandings with any party for such financing. We cannot predict when, if ever, that will happen.

Item 3 . CONTROLS AND PROCEDURES

Based on our management's evaluation (with the participation of our chief executive officer and chief financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and are also designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure. Based on the evaluation, which disclosed deficiencies with respect to the Company's internal control procedures over financial reporting, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are ineffective as of the end of the period covered by this report due to limited resources and personnel. With additional funding the Company intends to hire additional resources to assist with financial reporting disclosures controls and procedures.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS AND REPORTS ON S-8

Form: 8-K File Date December 15, 201
Form: 8-K File Date November 3, 2010
Form: 8-K File Date September 22, 2010
Form: 8-K File Date September 8, 2010

Exhibit Name and/or Identification of Exhibit Number

31 Certification
32 Certification

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

MEGOLA, INC.
(Registrant)

Date: March 22, 2011

By: /s/ Joel Gardner
Joel Gardner
President, CEO, Principal Financial
Officer and Principal Accounting Officer

Date: March 22, 2011
Exhibit 31

CERTIFICATION

I, Joel Gardner, President, CEO, Principal Financial Officer and Principal Accounting Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Megola, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within the Corporation, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 22, 2011

/s/ JOEL GARDNER
Joel Gardner
President, CEO, Principal Financial Officer and Principal Accounting Officer

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly report of Megola, Inc. (the "Company") on Form 10-Q for the period ending January 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joel Gardner, acting in the capacity as the President, CEO, Principal Financial Officer and Principal Accounting Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Joel Gardner

Joel Gardner
President, CEO, Principal Financial
Officer and Principal Accounting Officer
March 22, 2011